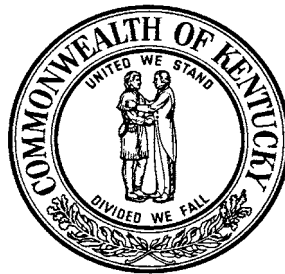


**REPORT OF THE AUDIT OF THE  
JOHNSON COUNTY  
CLERK**

**For The Year Ended  
December 31, 2001**



**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**  
[www.kyauditor.net](http://www.kyauditor.net)

**144 CAPITOL ANNEX  
FRANKFORT, KY 40601  
TELEPHONE (502) 564-5841  
FACSIMILE (502) 564-2912**



## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE JOHNSON COUNTY CLERK**

**For The Year Ended  
December 31, 2001**

The Auditor of Public Accounts has completed the Johnson County Clerk's audit for the year ended December 31, 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

#### **Financial Condition:**

There were no excess fees due the fiscal court in the prior year. Excess fees of \$64,534 were due the fiscal court as of December 31, 2001. Revenues increased by \$185,233 from the prior year and disbursements increased by \$120,699.

#### **Debt Obligations:**

Capital lease agreements require principal and interest payments of \$69,322 to meet future obligations.

#### **Report Comments:**

- The County Clerk Should Have A Written Agreement To Protect Deposits
- The County Clerk Should Publish An Annual Financial Statement As Required By Law
- Lacks Adequate Segregation Of Duties

#### **Deposits:**

The Clerk's deposits were insured and collateralized by bank securities or bonds. However, the depository institution did not have a written agreement with the County Clerk securing the Clerk's interest in the collateral



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EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable R. T. Daniel, Johnson County Judge/Executive

Honorable Betty Jo Conley, Johnson County Clerk

Members of the Johnson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Clerk of Johnson County, Kentucky, for the year ended December 31, 2001. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Clerk for the year ended December 31, 2001, in conformity with the modified cash basis of accounting.



To the People of Kentucky  
Honorable Paul E. Patton, Governor  
T. Kevin Flanery, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable R. T. Daniel, Johnson County Judge/Executive  
Honorable Betty Jo Conley, Johnson County Clerk  
Members of the Johnson County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated October 23, 2002, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The County Clerk Should Have A Written Agreement To Protect Deposits
- The County Clerk Should Publish An Annual Financial Statement As Required By Law
- Lacks Adequate Segregation Of Duties

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
October 23, 2002



JOHNSON COUNTY  
 BETTY JO CONLEY, COUNTY CLERK  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Year Ended December 31, 2001

Receipts

State Fees For Services	\$	13,607
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Fiscal Court		2,457
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Licenses, Taxes, Fees, and Permits:

Motor Vehicle-

Licenses and Transfers	\$	555,092
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Usage Tax		2,356,130
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Tangible Personal Property Tax		1,229,926
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Licenses-

Fish and Game		11,626
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Marriage		10,350
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Occupational		113
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Deed Transfer Tax		24,210
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Delinquent Tax		245,127
		4,432,574

Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts	\$	12,090
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Real Estate Mortgages		14,268
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Chattel Mortgages and Financing Statements		60,190
--	--	--------

Powers of Attorney		1,296
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All Other Recordings		52,757
		140,601

Other:

Miscellaneous Fees	\$	17,964
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Over and Short		10,503
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Copies		10
		28,477

Interest Earned		3,292
		3,292

Total Receipts	\$	4,621,008
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The accompanying notes are an integral part of this financial statement.

JOHNSON COUNTY  
 BETTY JO CONLEY, COUNTY CLERK  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES  
 For The Year Ended December 31, 2001  
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 421,095

Usage Tax 2,281,409

Tangible Personal Property Tax 469,700

Licenses, Taxes, and Fees-

Fish and Game 11,352

Delinquent Tax 40,511

Legal Process Tax 20,627

Candidate Filing Fees 990 \$ 3,245,684

Payments to Fiscal Court:

Tangible Personal Property Tax \$ 115,072

Delinquent Tax 22,285

Deed Transfer Tax 21,241 158,598

Payments to Other Districts:

Tangible Personal Property Tax \$ 595,865

Delinquent Tax 128,295 724,160

Payments to Sheriff

6,094

Payments to County Attorney

28,331

Operating Disbursements:

Personnel Services-

Deputies' Salaries \$ 217,797

Employee Benefits-

Employer's Paid Health Insurance 3,286

Contracted Services-

Printing and Binding 9,216

Materials and Supplies-

Office Supplies 12,818

Rentals 6,663

The accompanying notes are an integral part of this financial statement.

JOHNSON COUNTY  
 BETTY JO CONLEY, COUNTY CLERK  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES  
 For The Year Ended December 31, 2001  
 (Continued)

Disbursements (Continued)

Operating Disbursements: (Continued)

Other Charges-

Conventions and Travel	\$	122	
Dues		750	
Bad Checks		5,776	
Refunds		15,916	
Postage		5,105	
Maintenance and Repairs		8,119	
Miscellaneous Payments		<u>702</u>	\$ 286,270

Debt Service:

Lease Purchases		<u>38,052</u>	
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Total Disbursements			\$ 4,487,189
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Net Receipts			\$ 133,819
Less: Statutory Maximum			<u>65,685</u>

Excess Fees			\$ 68,134
Less: Expense Allowance			<u>3,600</u>

Excess Fees Due County for 2001			\$ 64,534
Payments to County Treasurer - February 8, 2002			<u>62,000</u>

Balance Due at Completion of Audit			<u><u>\$ 2,534</u></u>
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JOHNSON COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2001.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent for the first six months and 6.41 percent for the last six months of the calendar year.

JOHNSON COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2001  
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The depository institution has pledged or provided sufficient collateral, and the depository institution's board of directors or loan committee approved the pledge or provision. However, the depository institution did not have a written agreement with the County Clerk securing the Clerk's interest in the collateral.

Note 4. Leases

- A. On June 1, 1998, the County Clerk entered into a capital lease agreement with IBM Corporation for a computer system to be used for indexing. The lease is for five years and requires annual payments of \$22,092. The total future debt obligation is \$44,184.
- B. On February 1, 1999, the County Clerk entered into a capital lease agreement with Comp-Data for computer equipment to be used for indexing. The lease is for five years and requires annual payments of \$7,980. The total future debt obligation is \$23,940.
- C. On October 20, 1999, the County Clerk entered into a capital lease agreement with Lucent Technologies for telephone equipment. The lease is for four years and requires monthly payments of \$171. The total future debt obligation is \$1,197.

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## COMMENTS AND RECOMMENDATIONS





JOHNSON COUNTY  
BETTY JO CONLEY, COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2001

STATE LAWS AND REGULATIONS:

1. The County Clerk Should Have A Written Agreement To Protect Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. As of December 31, 2001, the County Clerk had bank deposits of \$176,901; FDIC insurance of \$100,000; and collateral pledged or provided of \$83,717. Even though the County Clerk obtained sufficient collateral of \$83,717, there was no written agreement between the County Clerk and the depository institution, signed by both parties, securing the County Clerk's interest in the collateral. We recommend the County Clerk enter into a written agreement with the depository institution to secure the County Clerk's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

*County Clerk's Response:*

*We entered into a written agreement with the bank for 2002.*

2. The County Clerk Should Publish An Annual Financial Statement As Required By Law

The Clerk failed to publish her annual financial statement as required by KRS 424.220(6). KRS 424.220(6) states "the Clerk shall, within sixty (60) days after the close of the Clerk's calendar year cause the financial statement to be published in full in a newspaper qualified under KRS 424.120 to publish advertisements for the county". We recommend the Clerk publish her annual financial statement within the 60-day time requirement established by KRS 424.220(6).

*County Clerk's Response:*

*We will comply next year.*

JOHNSON COUNTY  
BETTY JO CONLEY, COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2001  
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITION:

1. Lacks Adequate Segregation Of Duties

The Clerk's office has a lack of adequate segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Clerk should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. She could document this by initialing the bank deposit, daily deposit, and receipts ledger.
- The Clerk should compare the quarterly financial report to receipts and disbursements ledgers for accuracy. The Clerk should also compare the salaries listed on the quarterly report to the individual earning records. Any differences should be reconciled. The Clerk could document this by initialing the quarterly financial report.
- The Clerk should periodically compare invoices to payments. The Clerk could document this by initialing the invoices.
- The Clerk should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Clerk could document this by initialing the bank reconciliation and the balance in the checkbook.

*County Clerk's Response:*

*All reports and ledgers will be initialed by clerk in future.*

PRIOR YEAR:

- The County Clerk Should Enter Into A Written Agreement To Protect Deposits

REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

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Members of the Johnson County Fiscal Court

**Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of receipts, disbursements, and excess fees of the Johnson County Clerk for the year ended December 31, 2001, and have issued our report thereon dated October 23, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Johnson County Clerk's financial statement for the year ended December 31, 2001, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The County Clerk Should Have A Written Agreement To Protect Deposits
- The County Clerk Should Publish An Annual Financial Statement As Required By Law



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Johnson County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
October 23, 2002

